

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Charter Township of Pennfield
Calhoun County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Pennfield
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Charter Township of Pennfield's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets decreased by \$21 thousand (0.2 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$106 thousand, whereas net assets of the business-type activities decreased by \$127 thousand.
- Of the \$9.69 million total net assets reported, \$3.34 million (34 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$2.01 million which represents 103 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds as well as additional information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not practicable. Comparative analyses of the basic financial statements will be made in subsequent years.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as the police, fire, library, and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township establishes other funds to control and manage money for particular purposes (like Public Safety) or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

- **Proprietary funds.** Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary funds.** These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$9.69 million, a decrease of 0.2 percent compared to the prior year. Of this total, \$6.29 million is invested in capital assets and \$55 thousand is restricted for various purposes. Consequently, unrestricted net assets were \$3.34 million, or 34 percent of the total.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 2,192,166	\$ 2,165,256	\$ 1,587,371	\$ 1,566,202	\$ 3,779,537	\$ 3,731,458
Capital assets	<u>1,210,350</u>	<u>1,210,765</u>	<u>9,146,236</u>	<u>9,453,996</u>	<u>10,356,586</u>	<u>10,664,761</u>
Total assets	<u>3,402,516</u>	<u>3,376,021</u>	<u>10,733,607</u>	<u>11,020,198</u>	<u>14,136,123</u>	<u>14,396,219</u>
Other liabilities	117,620	85,964	151,253	176,111	268,873	262,075
Long-term debt	<u>241,864</u>	<u>349,557</u>	<u>3,780,000</u>	<u>3,915,000</u>	<u>4,021,864</u>	<u>4,264,557</u>
Total liabilities	<u>359,484</u>	<u>435,521</u>	<u>3,931,253</u>	<u>4,091,111</u>	<u>4,290,737</u>	<u>4,526,632</u>
Net assets:						
Invested in capital assets						
net of related debt	968,486	861,208	5,366,236	5,538,996	6,334,722	6,400,204
Restricted	55,472	29,291	-	-	55,472	29,291
Unrestricted	<u>2,019,074</u>	<u>2,050,001</u>	<u>1,436,118</u>	<u>1,390,091</u>	<u>3,455,192</u>	<u>3,440,092</u>
Total net assets	<u>\$ 3,043,032</u>	<u>\$ 2,940,500</u>	<u>\$ 6,802,354</u>	<u>\$ 6,929,087</u>	<u>\$ 9,845,386</u>	<u>\$ 9,869,587</u>

Charter Township of Pennfield
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The Township's total revenues are \$3.02 million. Nearly 32 percent of the Township's revenues come from property taxes and another 40 percent come from charges for services.

The total cost of all the Township's programs, covering a wide range of services, totaled \$3.04 million. More than 39 percent of the Township's costs relate to the provision of utility services. Public safety costs account for 44 percent of the costs and general government costs account for 14 percent of the Township's total costs.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenues:						
Charges for services	\$ 183,177	\$ 181,217	\$ 1,030,545	\$ 992,728	\$ 1,213,722	\$ 1,173,945
Operating grants	12,440	210	-	-	12,440	210
Capital grants	41,297	-	-	-	41,297	-
General revenues:						
Property taxes	951,618	911,122	-	-	951,618	911,122
State grants	683,644	696,465	-	-	683,644	696,465
Investment earnings	48,309	30,191	43,926	19,753	92,235	49,944
Other	21,823	14,991	462	453	22,285	15,444
Total revenues	1,942,308	1,834,196	1,074,933	1,012,934	3,017,241	2,847,130
Expenses:						
Legislative	7,117	7,406	-	-	7,117	7,406
General government	440,345	453,715	-	-	440,345	453,715
Public safety	1,303,406	1,220,329	-	-	1,303,406	1,220,329
Public works	69,628	67,251	-	-	69,628	67,251
Community and economic development	13,875	13,318	-	-	13,875	13,318
Interest	5,405	3,618	-	-	5,405	3,618
Sewer	-	-	718,891	737,468	718,891	737,468
Water	-	-	482,775	467,215	482,775	467,215
Total expenses	1,839,776	1,765,637	1,201,666	1,204,683	3,041,442	2,970,320
Increase (decrease) in net assets	\$ 102,532	\$ 68,559	\$ (126,733)	\$ (191,749)	\$ (24,201)	\$ (123,190)

Governmental activities

The cost of all governmental activities this year was \$1.84 million. After subtracting the direct charges to those who directly benefited from the programs (\$183 thousand) and operating and capital grants (\$54 thousand) the "public benefit" portion covered by taxes, state revenue sharing and other general revenues was \$1.6 million.

Governmental activities increased the Township's net assets by \$103 thousand. A key factor in this increase was discretionary spending within budgetary funds.

Charter Township of Pennfield
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Business-type activities

Business-type activities decreased the Township's net assets by \$90 thousand. The Sewer Fund generated a net decrease of \$67 thousand and the net assets of the Water Fund decreased by \$60 thousand primarily because of charges for depreciation of \$191 thousand and \$146 thousand, respectively. Both the Sewer and Water funds generated positive cash flows from operating activities of \$110 thousand and \$232 thousand, respectively.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2.06 million, with a minimal decrease in comparison with the prior year. Of the total fund balances, 99 percent constitutes unreserved fund balance, which is available for spending at the Township's discretion. The remaining \$10 thousand of fund balance is reserved to indicate that it is not available for new spending because it is restricted for building inspection purposes.

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$2.01 million, which represents 103 percent of the actual total General Fund expenditures for the current fiscal year. The General Fund balance decreased by approximately \$17 thousand in the current fiscal year.

Proprietary funds

The Sewer Fund experienced an operating loss of \$51 thousand. Net assets are \$4.78 million at year end.

The Water Fund generated operating income of \$77 thousand. Net assets are \$2.02 million at year end.

General fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$70 thousand primarily to recognize increases occurring in personnel costs and professional fees.

A budget variance of \$43 thousand in capital outlay is attributable the Township's use of Federal Emergency Management Agency funding which was not reflected in the amended budget.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2005, amounts to \$10.3 million (net of accumulated depreciation). This investment includes a broad range of assets including police and fire equipment, buildings, and sewer and water facilities. The Township's net investment in capital assets decreased by \$305 thousand in the current fiscal year, as depreciation (\$410 thousand) exceeded asset additions (\$105 thousand).

Charter Township of Pennfield
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Major capital asset activity during the current fiscal year included capital outlays of \$57 thousand for firefighting equipment and \$29 thousand in initial costs for the construction of water mains.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt

At the end of the fiscal year, the Township had total long-term loans and contracts outstanding in the amount of \$4.02 million which represents a decrease of \$243 thousand or 6 percent. Of this amount, \$3.78 million is backed by the full faith and credit of the Township.

State statutes limit the amount of general obligation debt the Township can issue to 10 percent of its total state equalized assessed value of property. The Township's total general obligation debt of \$3.78 is significantly lower than the current state-imposed limit of \$25.6 million

Other long-term debt obligations totaling approximately \$28 thousand represent accrued compensated absences.

More detailed information about the Township's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

Slightly more than \$2 million is available for appropriation in the General Fund. This represents approximately 108% of anticipated annual expenditures for the upcoming year, which indicates that the Township began the 2007 fiscal year in a positive financial position.

The Township has maintained its level of services and commitment to our citizens. We have been able to maintain this service level through prudent budgeting and careful cost containment. Revenues from property taxes and State Revenue Sharing are expected to increase minimally in 2007. The Township has not added major new programs or expenditures to the 2006 budget. Overall, the General Fund balance is budgeted to decrease by \$84 thousand (3%) for the fiscal year 2007.

Revenues in the other governmental funds are used primarily to cover a portion of public safety and street lighting costs. Because of the nature of these funds, their fund balances are minimal. The expected public safety millage will cover approximately one half of the anticipated \$1.3 million public safety expenditures for 2007, while the street lighting levy will essentially cover the direct costs for those services.

Contracted police activities are expected to generate about \$42,000 in Court and OUIL fees. The fire department has entered into a contract for a cost recovery program, in order to capture an estimated \$10,000 in additional revenues for providing services in the next fiscal year.

As fire apparatus are now designed to require taller and wider fire bay doors, significant building modifications will be necessary to fit updated vehicles into the current fire bays. The Township continues to examine this issue to determine the most cost-effective solution.

Charter Township of Pennfield
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Economic condition and outlook (Continued)

There were 19 new homes completed in the Township during the past year, and building permits for 30 more new homes or remodeling projects have been issued.

In early 2005, talks began to determine whether the Township could extend its water system to the new Pennfield High School. This extension has been approved, and construction was started in this fiscal year. The project is expected to cost \$375,000. This extension will add a large user to our water system, and also provide an increased level of safety to the High School's students and staff.

Our Water system currently has approximately 640 customers and continues to add new customers yearly. Our goal is to have 1,000 customers by the year 2009. This will allow our charges for services to remain affordable.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Sharon Lindauer, Township Supervisor
Charter Township of Pennfield
20260 Capital Avenue NE
Battle Creek, Michigan 49017

Phone: (269) 968-8549
E-mail: supervisor@pennfieldtwp.com

INDEPENDENT AUDITORS' REPORT

**Members of the Township Board
Charter Township of Pennfield, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Pennfield, Michigan, as of March 31, 2006, and for the year then ended, which collectively comprise the Charter Township of Pennfield, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Charter Township of Pennfield, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Pennfield, Michigan, as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, the Township corrected its 2005 financial statements for governmental activities to recognize certain infrastructure costs incurred during that year as capital assets.

The management's discussion and analysis on pages i through vii, and the budgetary comparison schedule and analysis of funding progress on pages 26 through 28, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**Members of the Township Board
Charter Township of Pennfield, Michigan
Page 2**

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Pennfield, Michigan's basic financial statements. The supplementary information, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Charter Township of Pennfield, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

May 17, 2006

BASIC FINANCIAL STATEMENTS

Charter Township of Pennfield
STATEMENT OF NET ASSETS
 March 31, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,102,746	\$ 1,183,290	\$ 2,286,036
Investments	805,202	193,719	998,921
Receivables, net	236,954	119,571	356,525
Prepaid expenses	38,005	-	38,005
Internal balances	9,259	(9,259)	-
Total current assets	<u>2,192,166</u>	<u>1,487,321</u>	<u>3,679,487</u>
Noncurrent assets:			
Receivables, net	-	100,050	100,050
Capital assets, net of accumulated depreciation	<u>1,210,350</u>	<u>9,146,236</u>	<u>10,356,586</u>
Total noncurrent assets	<u>1,210,350</u>	<u>9,246,286</u>	<u>10,456,636</u>
Total assets	<u>3,402,516</u>	<u>10,733,607</u>	<u>14,136,123</u>
LIABILITIES			
Current liabilities:			
Payables	89,962	143,184	233,146
Customer deposits	-	8,069	8,069
Current portion of long-term obligations	<u>111,693</u>	<u>135,000</u>	<u>246,693</u>
Total current liabilities	201,655	286,253	487,908
Noncurrent liabilities - long-term obligations	<u>157,829</u>	<u>3,645,000</u>	<u>3,802,829</u>
Total liabilities	<u>359,484</u>	<u>3,931,253</u>	<u>4,290,737</u>
NET ASSETS			
Invested in capital assets, net of related debt	968,486	5,366,236	6,334,722
Restricted for:			
Public safety	28,273	-	28,273
Public works	15,543	-	15,543
Parks and recreation	11,656	-	11,656
Unrestricted	<u>2,019,074</u>	<u>1,436,118</u>	<u>3,455,192</u>
Total net assets	<u>\$ 3,043,032</u>	<u>\$ 6,802,354</u>	<u>\$ 9,845,386</u>

See notes to the financial statements

Charter Township of Pennfield
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

Functions/Programs	Expenses	Program revenues		Net (expenses) revenues and changes in net assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Totals
Governmental activities:						
Legislative	\$ 7,117	\$ -	\$ -	\$ -	\$ (7,117)	\$ (7,117)
General government	440,345	51,758	-	-	(388,587)	(388,587)
Public safety	1,303,406	131,419	-	41,297	(1,130,690)	(1,130,690)
Public works	69,628	-	12,440	-	(57,188)	(57,188)
Community and economic development	13,875	-	-	-	(13,875)	(13,875)
Interest on long-term debt	5,405	-	-	-	(5,405)	(5,405)
Total governmental activities	1,839,776	183,177	12,440	41,297	(1,602,862)	(1,602,862)
Business-type activities:						
Sewer	718,891	622,194	-	-		\$ (96,697)
Water	482,775	408,813	-	-		(73,962)
Total business-type activities	1,201,666	1,031,007	-	-		(170,659)
Total primary government	\$ 3,041,442	\$ 1,214,184	\$ 12,440	\$ 41,297	(1,602,862)	(1,773,521)
General revenues:						
Property taxes					951,618	951,618
State grants					683,644	683,644
Investment income					48,309	43,926
Other					21,823	21,823
Total general revenues					1,705,394	43,926
Change in net assets					102,532	(126,733)
Net assets - beginning					2,940,500	6,929,087
Net assets - ending					\$ 3,043,032	\$ 6,802,354

See notes to the financial statements

Charter Township of Pennfield
BALANCE SHEET - governmental funds

March 31, 2006

	<u>General</u>	<u>Public Safety</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 1,056,965	\$ 18,582	\$ 27,199	\$ 1,102,746
Investments	805,202	-	-	805,202
Receivables, net	187,352	44,820	4,782	236,954
Due from other funds	58,861	-	-	58,861
 Total assets	 <u>\$ 2,108,380</u>	 <u>\$ 63,402</u>	 <u>\$ 31,981</u>	 <u>\$ 2,203,763</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 89,962	\$ -	\$ -	\$ 89,962
Due to other funds	-	44,820	4,782	49,602
 Total liabilities	 <u>89,962</u>	 <u>44,820</u>	 <u>4,782</u>	 <u>139,564</u>
Fund balances:				
Reserved for inspections	9,691	-	-	9,691
Unreserved	2,008,727	18,582	-	2,027,309
Unreserved, reported in nonmajor - special revenue funds	-	-	27,199	27,199
 Total fund balances	 <u>2,018,418</u>	 <u>18,582</u>	 <u>27,199</u>	 <u>2,064,199</u>
 Total liabilities and fund balances	 <u>\$ 2,108,380</u>	 <u>\$ 63,402</u>	 <u>\$ 31,981</u>	 <u>\$ 2,203,763</u>

Total fund balances \$ 2,064,199

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial and, therefore, are not reported in the funds. 1,210,350

Prepaid expenses are not a current financial resource and, therefore, are not reported in the fund financial statements. 38,005

Accrual of compensated absences. (27,658)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. (241,864)

Net assets of *governmental activities* (page 5) \$ 3,043,032

See notes to the financial statements

Charter Township of Pennfield

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2006

	<u>General</u>	<u>Public Safety</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Taxes	\$ 288,921	\$ 598,956	\$ 63,741	\$ 951,618
State grants	689,018	-	7,066	696,084
Federal grants	41,297	-	-	41,297
Fines and forfeitures	55,591	-	-	55,591
Licenses and permits	99,507	-	-	99,507
Charges for services	28,079	-	-	28,079
Interest and rentals	47,362	582	365	48,309
Other	21,823	-	-	21,823
Total revenues	<u>1,271,598</u>	<u>599,538</u>	<u>71,172</u>	<u>1,942,308</u>
EXPENDITURES				
Legislative	7,117	-	-	7,117
General government	422,506	-	-	422,506
Public safety	1,242,026	-	-	1,242,026
Public works	64,608	-	-	64,608
Community and economic development	13,875	-	-	13,875
Debt service:				
Principal	107,693	-	-	107,693
Interest	5,405	-	-	5,405
Capital outlay	79,840	-	-	79,840
Total expenditures	<u>1,943,070</u>	<u>-</u>	<u>-</u>	<u>1,943,070</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(671,472)</u>	<u>599,538</u>	<u>71,172</u>	<u>(762)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	662,697	-	8,477	671,174
Transfers out	(8,477)	(598,956)	(63,741)	(671,174)
Total other financing sources (uses)	<u>654,220</u>	<u>(598,956)</u>	<u>(55,264)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(17,252)</u>	<u>582</u>	<u>15,908</u>	<u>(762)</u>
FUND BALANCES - BEGINNING	<u>2,035,670</u>	<u>18,000</u>	<u>11,291</u>	<u>2,064,961</u>
FUND BALANCES - ENDING	<u>\$ 2,018,418</u>	<u>\$ 18,582</u>	<u>\$ 27,199</u>	<u>\$ 2,064,199</u>

See notes to the financial statements

Charter Township of Pennfield

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended March 31, 2006

Net changes in fund balances - total governmental funds (page 8)	\$ (762)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital assets:	
Assets acquired	75,349
Provision for depreciation	(75,764)
Long-term debt - principal repayment	107,693
Net increase in liability for compensated absences	<u>(3,984)</u>
Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 102,532</u>

See notes to the financial statements

Charter Township of Pennfield
STATEMENT OF NET ASSETS - proprietary funds

March 31, 2006

	<i>Enterprise funds</i>		
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 745,147	\$ 255,689	\$ 1,000,836
Investments	5,901	187,818	193,719
Receivables, net	76,144	43,427	119,571
Total current assets	<u>827,192</u>	<u>486,934</u>	<u>1,314,126</u>
Noncurrent assets:			
Receivables, net	58,403	41,647	100,050
Advance to other fund	300,000	-	300,000
Cash reserved for debt service	110,990	71,464	182,454
Capital assets, net of accumulated depreciation	<u>4,462,635</u>	<u>4,683,601</u>	<u>9,146,236</u>
Total noncurrent assets	<u>4,932,028</u>	<u>4,796,712</u>	<u>9,728,740</u>
Total assets	<u>5,759,220</u>	<u>5,283,646</u>	<u>11,042,866</u>
LIABILITIES			
Current liabilities:			
Payables	63,214	79,970	143,184
Due to other funds	4,735	4,524	9,259
Customer deposits	8,069	-	8,069
Current portion of long-term obligations	<u>75,000</u>	<u>60,000</u>	<u>135,000</u>
Total current liabilities	<u>151,018</u>	<u>144,494</u>	<u>295,512</u>
Noncurrent liabilities:			
Advance from other fund	-	300,000	300,000
Long-term obligations	<u>825,000</u>	<u>2,820,000</u>	<u>3,645,000</u>
Total noncurrent liabilities	<u>825,000</u>	<u>3,120,000</u>	<u>3,945,000</u>
Total liabilities	<u>976,018</u>	<u>3,264,494</u>	<u>4,240,512</u>
NET ASSETS			
Investment in capital assets, net of related debt	3,562,635	1,803,601	5,366,236
Unrestricted	<u>1,220,567</u>	<u>215,551</u>	<u>1,436,118</u>
Total net assets	<u>\$ 4,783,202</u>	<u>\$ 2,019,152</u>	<u>\$ 6,802,354</u>

See notes to the financial statements

Charter Township of Pennfield**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN****NET ASSETS - proprietary funds**

Year ended March 31, 2006

	Enterprise funds		
	Sewer	Water	Totals
OPERATING REVENUES			
Charges for services	\$ 598,825	\$ 318,212	\$ 917,037
Other	23,369	90,601	113,970
Total operating revenues	622,194	408,813	1,031,007
OPERATING EXPENSES			
Personnel costs	72,930	72,921	145,851
Contractual services	381,940	25,735	407,675
Repairs and maintenance	4,967	45,277	50,244
Supplies	5,987	7,861	13,848
Insurance	2,231	8,018	10,249
Utilities	1,820	12,283	14,103
Depreciation	191,035	146,201	337,236
Administrative fees	8,000	8,000	16,000
Other	4,668	4,579	9,247
Total operating expenses	673,578	330,875	1,004,453
Operating income (loss)	(51,384)	77,938	26,554
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	29,667	14,259	43,926
Interest expense	(45,313)	(151,900)	(197,213)
Total nonoperating expenses	(15,646)	(137,641)	(153,287)
CHANGES IN NET ASSETS	(67,030)	(59,703)	(126,733)
NET ASSETS - BEGINNING	4,850,232	2,078,855	6,929,087
NET ASSETS - ENDING	\$ 4,783,202	\$ 2,019,152	\$ 6,802,354

See notes to the financial statements

Charter Township of Pennfield
STATEMENT OF CASH FLOWS - proprietary funds
Year ended March 31, 2006

	Enterprise funds		
	Sewer	Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 623,280	\$ 410,092	\$ 1,033,372
Payments to vendors and suppliers	(440,431)	(105,149)	(545,580)
Payments to employees	(72,110)	(72,101)	(144,211)
Net cash provided by operating activities	<u>110,739</u>	<u>232,842</u>	<u>343,581</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(29,476)	(29,476)
Principal collections on special assessments	24,545	11,556	36,101
Special assessments interest	4,946	2,922	7,868
Principal payments on long-term debt	(75,000)	(60,000)	(135,000)
Interest payments on long-term debt	(46,875)	(153,181)	(200,056)
Net cash used in capital and related financing activities	<u>(92,384)</u>	<u>(228,179)</u>	<u>(320,563)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale (purchase) of investments	(108)	(165,819)	(165,927)
Interest received	<u>24,719</u>	<u>6,761</u>	<u>31,480</u>
Net cash provided by (used in) investing activities	<u>24,611</u>	<u>(159,058)</u>	<u>(134,447)</u>
NET INCREASE (DECREASE) IN CASH	42,966	(154,395)	(111,429)
CASH - BEGINNING	<u>813,171</u>	<u>481,548</u>	<u>1,294,719</u>
CASH - ENDING	<u>\$ 856,137</u>	<u>\$ 327,153</u>	<u>\$ 1,183,290</u>

See notes to the financial statements

Charter Township of Pennfield**STATEMENT OF CASH FLOWS - proprietary funds (Continued)**

Year ended March 31, 2005

	Business-type activities		
	Enterprise funds		
	Sewer	Water	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (51,384)	\$ 77,938	\$ 26,554
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	191,035	146,201	337,236
Decrease in receivables, net	1,086	1,279	2,365
Increase (decrease) in:			
Payables	(30,100)	7,706	(22,394)
Due to other funds	(281)	(282)	(563)
Customer deposits	383	-	383
Net cash provided by operating activities	<u>\$ 110,739</u>	<u>\$ 232,842</u>	<u>\$ 343,581</u>

See notes to the financial statements

Charter Township of Pennfield

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

March 31, 2006

ASSETS

Cash	\$ <u>8,174</u>
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LIABILITIES

Due to other governmental units	\$ <u>8,174</u>
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See notes to the financial statements

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Charter Township of Pennfield, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Public Safety Fund accounts for funds earmarked for the special revenue fund.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the Township's water distribution system.

Additionally, the Township reports the following fund types:

The Agency Fund, a fiduciary fund, which accounts for financial assets held for other units of government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) *Bank deposits* - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) *Receivables* - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Township has elected to account for its infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 - 60 years
Building improvements	15 - 30 years
Water and sewer lines	50 - 75 years
Roads	10 - 30 years
Infrastructure	5 - 50 years
Equipment	3 - 5 years

iv) *Compensated absences* - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Township's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Amended budget</u>	<u>Actual/V</u>	<u>ariance</u>
General	Capital outlay	\$ 36,372	\$ 79,840	\$ (43,468)
General	Transfer to Metro Act Fund	-	8,477	(8,477)

NOTE 3 - CASH AND INVESTMENTS:

Cash as presented in the accompanying financial statements, consisted of the following:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total</u>
Deposits	\$ 1,102,321	\$ 1,183,290	\$ 8,174	\$ 2,293,785
Cash on hand	<u>425</u>	<u>-</u>	<u>-</u>	<u>425</u>
Total cash	<u>\$ 1,102,746</u>	<u>\$ 1,183,290</u>	<u>\$ 8,174</u>	<u>\$ 2,294,210</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority. Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At March 31, 2006, \$1,994,868 of the Township's bank balances of \$2,393,372 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes and the Township's investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) investment pools composed of otherwise legal investments.

At March 31, 2006, the Township's investments consisted of the following:

<u>Investment type</u>	<u>Total</u>
U.S. Government mortgage-backed securities	\$ 805,398
Mutual funds	<u>193,523</u>
	<u>\$ 998,921</u>

The Township's investments in government securities are carried at market value and are registered and held in the Township's name by a financial institution. Mutual funds are carried at cost, which approximates market.

NOTE 4 - RECEIVABLES:

At March 31, 2006, the Township's receivables were as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental activities:				
General Fund	\$ 21,128	\$ 59,416	\$ 106,808	\$ 187,352
Public Safety Fund	44,820	-	-	44,820
Nonmajor governmental funds	<u>4,782</u>	<u>-</u>	<u>-</u>	<u>4,782</u>
Total governmental activities	<u>\$ 70,730</u>	<u>\$ 59,416</u>	<u>\$ 106,808</u>	<u>\$ 236,954</u>
Business-type activities:				
Sewer Fund	\$ 61,708	\$ 72,839	\$ -	\$ 134,547
Water Fund	<u>43,321</u>	<u>41,753</u>	<u>-</u>	<u>85,074</u>
Total business-type activities	<u>\$ 105,029</u>	<u>\$ 114,592</u>	<u>\$ -</u>	<u>\$ 219,621</u>
Non current portion	<u>\$ -</u>	<u>\$ 100,050</u>	<u>\$ -</u>	<u>\$ 100,050</u>

All receivables are considered fully collectible.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 111,417	\$ -	\$ -	\$ 111,417
Capital assets being depreciated:				
Buildings	299,699	3,394	-	303,093
Furniture, fixtures, and equipment	177,714	71,955	-	249,669
Vehicles	1,000,534	-	-	1,000,534
Infrastructure - drains	160,650	-	-	160,650
Subtotal	<u>1,638,597</u>	<u>75,349</u>	<u>-</u>	<u>1,713,946</u>
Less accumulated depreciation for:				
Buildings	163,920	6,770	-	170,690
Furniture, fixtures, and equipment	111,943	17,254	-	129,197
Vehicles	261,779	48,527	-	310,306
Infrastructure - drains	1,607	3,213	-	4,820
Subtotal	<u>539,249</u>	<u>75,764</u>	<u>-</u>	<u>615,013</u>
Total capital assets being depreciated, net	<u>1,099,348</u>	<u>(415)</u>	<u>-</u>	<u>1,098,933</u>
Governmental activities capital assets, net	<u>\$ 1,210,765</u>	<u>\$ (415)</u>	<u>\$ -</u>	<u>\$ 1,210,350</u>
Business-type activities:				
Sewer:				
Capital assets being depreciated:				
Sewer disposal system	\$ 9,356,385	\$ -	\$ -	\$ 9,356,385
Equipment	83,018	-	-	83,018
Subtotal	<u>9,439,403</u>	<u>-</u>	<u>-</u>	<u>9,439,403</u>
Less accumulated depreciation for:				
Sewer disposal system	4,717,600	187,128	-	4,904,728
Equipment	68,133	3,907	-	72,040
Subtotal	<u>4,785,733</u>	<u>191,035</u>	<u>-</u>	<u>4,976,768</u>

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities (continued):				
Water Fund:				
Capital assets being depreciated:				
Water supply system	\$ 6,382,550	\$ 29,476	\$ -	\$ 6,412,026
Equipment	<u>104,348</u>	<u>-</u>	<u>-</u>	<u>104,348</u>
Subtotal	<u>6,486,898</u>	<u>29,476</u>	<u>-</u>	<u>6,516,374</u>
Less accumulated depreciation for:				
Water supply system	1,621,568	136,535	-	1,758,103
Equipment	<u>65,004</u>	<u>9,666</u>	<u>-</u>	<u>74,670</u>
Subtotal	<u>1,686,572</u>	<u>146,201</u>	<u>-</u>	<u>1,832,773</u>
Total water fund capital assets, net	<u>4,800,326</u>	<u>(116,725)</u>	<u>-</u>	<u>4,683,601</u>
Business-type activities capital assets, net	<u>\$ 9,453,996</u>	<u>\$ (307,760)</u>	<u>\$ -</u>	<u>\$ 9,146,236</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 11,791
Public safety	58,953
Public works	<u>5,020</u>
Total governmental activities	<u>\$ 75,764</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At March 31, 2006, the composition of interfund balances was as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Fund</u>	<u>Payables</u>
General Fund	<u>\$ 58,861</u>	Public Safety Fund	\$ 44,820
		Nonmajor governmental funds	4,782
		Sewer Fund	4,735
		Water Fund	<u>4,524</u>
			<u>\$ 58,861</u>

The amount owed to the General Fund represent reimbursements due for costs paid on behalf of other funds.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

A summary of interfund transfers for the year ended March 31, 2006, is as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General Fund	\$ 662,697	Public Safety Fund	\$ 598,956
Metro Act Fund	<u>8,477</u>	Nonmajor governmental funds	63,741
		General Fund	<u>8,477</u>
	<u>\$ 671,174</u>		<u>\$ 671,174</u>

The transfers represent transfers of annual assessment revenues to offset related costs recorded in the Township's General Fund.

NOTE 7 - PAYABLES:

At March 31, 2006, the Township's payables were as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental activities:				
General Fund	<u>\$ 72,443</u>	<u>\$ 17,519</u>	<u>\$ -</u>	<u>\$ 89,962</u>
Business-type activities:				
Sewer Fund	<u>\$ 35,408</u>	<u>\$ 9,056</u>	<u>\$ 18,750</u>	<u>\$ 63,214</u>
Water Fund	<u>11,290</u>	<u>5,495</u>	<u>63,185</u>	<u>79,970</u>
Total business-type activities	<u>\$ 46,698</u>	<u>\$ 14,551</u>	<u>\$ 81,935</u>	<u>\$ 143,184</u>

NOTE 8 - LONG-TERM OBLIGATIONS:

At March 31, 2006, long-term liabilities are comprised of the following individual issues:

Governmental activities:

Notes:

\$160,650 0% 2004 Calhoun County Drain Commission Debt; due in annual installments of \$22,950 through October 2011. \$ 114,750

\$254,228 2004 2.8% Note payable, Comerica Bank; due in semi-annual installments ranging from \$42,965 to \$45,931 including interest, beginning October 2004 through April 2007. 127,114

Total notes 241,864

Accrued compensated absences 27,658

Total long-term obligations \$ 269,522

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

Business-type activities:

Contracts payable:

Contract with county to provide payment for Western Calhoun County Sanitary Sewer System No. 28 (Township of Pennfield) Bond, bearing interest at 5%, maturing each year through 2017, principal installment is \$75,000 \$ 900,000

Contract with county to provide payment for Calhoun County Water Supply System Series 1997 (Township of Pennfield) Bond, bearing interest at 5% to 7%, maturing each year through 2032, principal installments range from \$25,000 to \$125,000 2,205,000

Contract with county to provide payment for Calhoun County Water Supply System No. 6, 1993 (Township of Pennfield) Bond, bearing interest at 5%, maturing each year through 2022, principal installments range from from \$30,000 to \$45,000 675,000

Total business-type activities long-term obligations \$ 3,780,000

Long-term obligation activity for the year ended March 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
2004 County Drain Contract	\$ 137,700	\$ -	\$ (22,950)	\$ 114,750	\$ 22,950
2004 Note	<u>211,857</u>	<u>-</u>	<u>(84,743)</u>	<u>127,114</u>	<u>84,743</u>
Total contracts and notes	349,557	-	(107,693)	241,864	107,693
Compensated absences	<u>23,674</u>	<u>3,984</u>	<u>-</u>	<u>27,658</u>	<u>4,000</u>
Total governmental activities long-term obligations	<u>\$ 373,231</u>	<u>\$ 3,984</u>	<u>\$ (107,693)</u>	<u>\$ 269,522</u>	<u>\$ 111,693</u>
Business-type activities:					
Sewer contract payable	\$ 975,000	\$ -	\$ (75,000)	\$ 900,000	\$ 75,000
1997 contract payable	2,235,000	-	(30,000)	2,205,000	30,000
1993 contract payable	<u>705,000</u>	<u>-</u>	<u>(30,000)</u>	<u>675,000</u>	<u>30,000</u>
Total business-type activities long-term obligations	<u>\$ 3,915,000</u>	<u>\$ -</u>	<u>\$ (135,000)</u>	<u>\$ 3,780,000</u>	<u>\$ 135,000</u>

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

At March 31, 2006, debt service requirements, excluding compensated absences, were as follows:

<i>Year ended</i> <i>March 31,</i>	<i>Governmental activities</i>		<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2007	107,693	2,966	135,000	192,969
2008	65,321	593	155,000	185,356
2009	22,950	-	165,000	177,231
2010	22,950	-	165,000	168,856
2011	22,950	-	165,000	160,544
2012 - 2016	-	-	825,000	677,875
2017 - 2021	-	-	755,000	471,931
2022- 2026	-	-	590,000	289,730
2027 - 2031	-	-	575,000	145,185
2032 - 2033	-	-	250,000	13,000
Totals	<u>\$ 241,864</u>	<u>\$ 3,559</u>	<u>\$ 3,780,000</u>	<u>\$ 2,482,677</u>

All debt is secured by the full faith and credit of the Township.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The Township's defined benefit pension plan provides retirement benefits to qualified employees and their beneficiaries. The Township's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Township. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

MERS members are required to contribute an amount varying between 0 and 10 percent, based on the benefit structure established by each employer. The Township is required to contribute at an actuarially determined rate, which currently is 11.66 percent. Covered employees are required to contribute 4.50% to the plan. Administrative costs of the plan are financed through investment earnings.

Charter Township of Pennfield
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued):

Annual pension cost:

For the year ended March 31, 2006, the Township's annual pension cost of \$63,208 for its defined benefit pension plan equaled the required contributions. The required contribution was determined as part of the March 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) 8 percent investment rate of return, net of administrative expenses, b) projected salary increases of 4.5 percent per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan has an unfunded actuarial accrued liability, which is being amortized over 30 years as a level percentage of payroll.

Trend information:

<i>Fiscal year ended March 31,</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
2004	31,858	100%	-
2005	51,622	100%	-
2006	63,208	100%	-

NOTE 10 - CLAIMS ARISING FROM RISKS OF LOSS:

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risks of losses arising from possible claims are managed through the purchase of commercial insurance. Coverage for general, professional, and wrongful act liabilities are set at \$5,000,000 per incident, with policy period maximums at \$5,000,000 to \$15,000,000. Fleet liability coverage includes bodily injury and property damage liability protection up to \$5,000,000 and damage coverage at replacement value for fire and rescue vehicles up to approximately \$1,200,000, and at cash values for other Township vehicles. Buildings and property coverage total approximately \$4,000,000. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2006, is as follows:

Revenues	\$ 69,726
Expenses	<u>(72,670)</u>
Deficiency of revenues over expenses	<u>\$ (2,944)</u>

NOTE 12 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in the government-wide financial statements to reflect the capitalization of county drain costs incurred in fiscal 2005 net of applicable depreciation. The net effect of the adjustment increased beginning net assets by \$159,403.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Pennfield

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 288,408	\$ 286,002	\$ 288,921	\$ 2,919
State grants	681,310	686,684	689,018	2,334
Federal grants	-	-	41,297	41,297
Fines and forfeitures	36,250	52,250	55,591	3,341
Licenses and permits	133,780	139,440	99,507	(39,933)
Charges for services	22,250	27,700	28,079	379
Interest and rentals	18,700	45,764	47,362	1,598
Other	1,610	21,519	21,823	304
Total revenues	<u>1,182,308</u>	<u>1,259,359</u>	<u>1,271,598</u>	<u>12,239</u>
EXPENDITURES				
Legislative	8,050	8,090	7,117	973
General government	467,965	499,919	422,506	77,413
Public safety	1,242,771	1,304,822	1,242,026	62,796
Public works	65,057	62,257	64,608	(2,351)
Community and economic development	17,256	17,256	13,875	3,381
Debt service:				
Principal	107,693	107,693	107,693	-
Interest	7,257	5,457	5,405	52
Capital outlay	55,570	36,372	79,840	(43,468)
Total expenditures	<u>1,971,619</u>	<u>2,041,866</u>	<u>1,943,070</u>	<u>98,796</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(789,311)</u>	<u>(782,507)</u>	<u>(671,472)</u>	<u>111,035</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Street Lights Fund	62,000	62,000	63,741	1,741
Transfer from Public Safety Fund	597,000	597,000	598,956	1,956
Transfer to Metro Act Fund	-	-	(8,477)	(8,477)
Total other financing sources	<u>659,000</u>	<u>659,000</u>	<u>654,220</u>	<u>(4,780)</u>
NET CHANGES IN FUND BALANCES	<u>(130,311)</u>	<u>(123,507)</u>	<u>(17,252)</u>	<u>106,255</u>
FUND BALANCES - BEGINNING	<u>2,035,670</u>	<u>2,035,670</u>	<u>2,035,670</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,905,359</u>	<u>\$ 1,912,163</u>	<u>\$ 2,018,418</u>	<u>\$ 106,255</u>

Charter Township of Pennfield
BUDGETARY COMPARISON SCHEDULE - Public Safety Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 597,000	\$ 597,000	\$ 598,956	\$ 1,956
Interest	<u>-</u>	<u>-</u>	<u>582</u>	<u>582</u>
Total revenues	<u>597,000</u>	<u>597,000</u>	<u>599,538</u>	<u>2,538</u>
OTHER FINANCING USES				
Transfer to General Fund	<u>(597,000)</u>	<u>(597,000)</u>	<u>(598,956)</u>	<u>(1,956)</u>
NET CHANGES IN FUND BALANCES	-	-	582	582
FUND BALANCES - BEGINNING	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 18,000</u>	<u>\$ 18,000</u>	<u>\$ 18,582</u>	<u>\$ 582</u>

Charter Township of Pennfield
ANALYSIS OF FUNDING PROGRESS - Employee Retirement System
(Municipal Employees' Retirement System of Michigan)

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated.

<i>Actuarial valuation date December 31,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Funded ratio (a)/(b)</i>	<i>Underfunded AAL (UAAL) (b-a)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
2003*	\$ 625,375	\$ 1,035,424	60%	\$ 410,049	\$ 482,911	85%
2004	729,253	1,156,303	63%	427,050	501,329	85%

*Plan participation began June 1, 2003.

SUPPLEMENTARY INFORMATION

Charter Township of Pennfield**COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2006

	<u>Street Lights</u>	<u>Park</u>	<u>Metro Act</u>	<u>Totals</u>
ASSETS				
Cash	\$ -	\$ 11,656	\$ 15,543	\$ 27,199
Receivables (net)	<u>4,782</u>	<u>-</u>	<u>-</u>	<u>4,782</u>
Total assets	<u>\$ 4,782</u>	<u>\$ 11,656</u>	<u>\$ 15,543</u>	<u>\$ 31,981</u>
LIABILITIES AND FUND BALANCES				
Liabilities - due to other funds	\$ 4,782	\$ -	\$ -	\$ 4,782
Fund balances - unreserved, undesignated	<u>-</u>	<u>11,656</u>	<u>15,543</u>	<u>27,199</u>
Total liabilities and fund balances	<u>\$ 4,782</u>	<u>\$ 11,656</u>	<u>\$ 15,543</u>	<u>\$ 31,981</u>

Charter Township of Pennfield**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended March 31, 2006

	<u>Street Lights</u>	<u>Park</u>	<u>Metro Act</u>	<u>Totals</u>
REVENUES				
Property taxes	\$ 63,741	\$ -	\$ -	\$ 63,741
State grants	-	-	7,066	7,066
Interest	-	365	-	365
	<u>-</u>	<u>365</u>	<u>-</u>	<u>365</u>
Total revenues	<u>63,741</u>	<u>365</u>	<u>7,066</u>	<u>71,172</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	-	-	8,477	8,477
Transfer to General Fund	(63,741)	-	-	(63,741)
	<u>(63,741)</u>	<u>-</u>	<u>-</u>	<u>(63,741)</u>
Total other financing sources (uses)	<u>(63,741)</u>	<u>-</u>	<u>8,477</u>	<u>(55,264)</u>
NET CHANGES IN FUND BALANCES	-	365	15,543	15,908
FUND BALANCES - BEGINNING	<u>-</u>	<u>11,291</u>	<u>-</u>	<u>11,291</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ 11,656</u>	<u>\$ 15,543</u>	<u>\$ 27,199</u>